



NOTICE: METHODOLOGY UPDATE 2019

A technical paper of the Social Metrics Commission

July 2019

Contacting us and contributing to our work

We welcome discussion on these issues and would appreciate constructive feedback and comment on our approach. To contact the Commission's secretariat, please use the following email address:

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About the Social Metrics Commission

The Social Metrics Commission was formed in 2016 and is led by the Legatum Institute's CEO Baroness Stroud. It is an independent and rigorously non-partisan organisation dedicated to helping policymakers and the public understand and take action to tackle poverty. Since its inception, its ultimate goal has been to develop new poverty metrics for the UK which have both long-term political support and effectively identify those who are in poverty. By doing so, it is hoped that Government and others will be better able to develop interventions that reduce the number of people experiencing poverty and improve outcomes for those people who do experience it.

The Commission would like to thank both the Legatum Institute for hosting the Commission and making available the resources of its Centre for Metrics, and the Legatum Foundation for their significant support of this work. This report would not have been possible without that support, and the research, editorial and functional independence that has underpinned the Commission's work.

Supporters of the Commission

The Social Metrics Commission would like to thank the following organisations and people for their generous support for the work of developing new poverty metrics for the UK.

- Joseph Rowntree Foundation;
- Calouste Gulbenkian Foundation (UK Branch);
- Garfield Weston Trust;
- Oliver Wyman.
- PF Charitable Trust; and
- Mr Sanjit and Mrs Sangeeta Talukdar.

About the Legatum Institute

As CEO of the Legatum Institute Baroness Stroud has been proud to Chair the Social Metrics Commission and for the Legatum Institute to host the Commission and contribute to the vital work that has been undertaken. The Legatum Institute is a London-based think-tank with a global vision: to see all people lifted out of poverty. Our mission is to create the pathways from poverty to prosperity, by fostering Open Economies, Inclusive Societies and Empowered People.

We do this in three ways:

1. Our **Centre for Metrics** which creates indexes and datasets to measure and explain how poverty and prosperity are changing.
2. Our **Research Programmes** which analyse the many complex drivers of poverty and prosperity at the local, national and global level.
3. Our **Practical Programmes** which identify the actions required to enable transformational change.

Learn more about the Legatum Institute at www.li.com

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SUMMARY OF CHANGES TO THE COMMISSION'S APPROACH TO MEASUREMENT – 2019

Background

The Social Metrics Commission was formed in 2016 with the explicit goal of creating new poverty measures for the UK. In September 2018, the Commission launched both its first full report and recommendations for how poverty measurement in the UK should be taken forward. By bringing together the measurement of poverty, the depth and persistence of poverty and the Lived Experiences that impact on people's lives, the Commission has developed a more detailed framework for understanding poverty in the UK; how it can be tackled and how the lives of those in poverty could be improved.

The Commission's 2018 report also highlighted that further work is needed to ensure that its measurement framework can be fully implemented. This included work to develop improved approaches to measuring the extra costs of disability and equivalisation, and capturing survey data on debt and social care costs.

In advance of the publication of the Commission's full 2019 report, this notice outlines our approach to incorporating methodological changes in general, and then outlines the specific changes that have been implemented over the last year.

How to incorporate future methodological changes

Why consider this issue?

The Commission's 2018 report highlighted that, since there is little evidence on how to set a poverty threshold to accurately reflect the lived experience of people either side of the line, the setting of a poverty line is largely arbitrary. As such, rather than attempting to change the understanding of the number of people in poverty, the Commission decided to focus on improving the understanding of the different types of people beneath any given threshold and to explore the lived experience of poverty of these people.

With this in mind, the Commission took the view that it would not be appropriate for the changes to measurement approach undertaken by the Commission (which improve the understanding of who is in poverty) to lead to significant changes to the measured level of poverty. Based on this, the Commission set a poverty threshold of 55% (of the three-year average of the median of total available resources) in order to match the level of poverty observed when using the after-housing costs version of the HBAI relative low-income measure.

However, the Commission's 2018 report highlighted that, as well as continued improvements expected to its approach, based on new data and stakeholder feedback, there are a number of areas where there may be significant future changes to the approach taken to measurement. This included:

- The inclusion of debt repayments in the measurement of total resources available, which would be possible if questions were added to the Family Resources Survey;
- The inclusion of the costs of social care as an "inescapable family-specific cost", which would be possible if questions were added to the Family Resources Survey;

- Improvements on the approach to measuring the extra costs of disability, which requires significant further research and testing; and
- Improvements on the approach taken to equivalisation (the process through which the size and composition of families is taken into account when assessing poverty), which requires significant further research and testing.

If incorporated directly into the Commission's existing approach, without any further changes, each of these changes to measurement could impact on the overall level of measured poverty. This means that, while our understanding of the poverty experiences of people in society may remain the same, methodological changes could lead to rises or falls in *measured poverty*.

With this in mind, the Commission considered how it would seek to incorporate future changes in methodology, until a final measure consisting of all the elements the Commission has recommended is settled on and agreed.

The Commission's decision

The Commission considered a range of options for how it might choose to incorporate future improvements to its methodology. This included consideration of whether it might simply allow its measure of the overall number of people in poverty in the UK to respond to the changes. The implication of this would be that, where methodological changes lead to an increase or fall in poverty, it would be inferred that the Commission had changed its mind about how many people are in poverty in the UK.

A practical example is that when data on debt becomes available in the Family Resources Survey and is included in the Commission's measure, since families right across the income distribution have debt, this could reduce the value of the median of total resources available. If this were the case, all else equal, measured poverty could fall in the year that the debt data was introduced.

The Commission did not feel that this would typically be an accurate representation of what happens when it refines its methodology. The key reason behind this is that, while its measurement methodology might have changed, there is not necessarily a reason to suppose that the number of people in poverty in the UK had also changed. Instead, improvements to methodology are there to help us better understand the types of people most likely to be in poverty, not the total number below an ultimately arbitrary line.

It is also clear that the number of people in poverty according to the Commission's original measure was simply benchmarked to existing measures of the number of people in poverty. If all the data that the Commission required was available and all elements of its methodology were fully in place at the time when the original measure was developed, the Commission would still have benchmarked the number of people in poverty in the same way.

As a result, the Commission decided that as methodological improvements are made to its measurement framework, it will seek to reassess its poverty threshold decision.

Commissioners felt that the most appropriate way of doing this would be to ensure the measured level of poverty in the 2016/17 results match the 14.2 million estimate from when the Commission first made its decision on the threshold in 2018. In short, ensuring that future threshold decisions are made as if the Commission had all of the methodological improvements available to it when that first decision was made.

Of course, there are some methodological changes that it might not be possible to apply retrospectively. For example, where new data has been collected on debt and social care. Where this is the case, the Commission will again seek to apply the principle outlined above. A number of options exist, including making the threshold decision with reference to the poverty rate that would have been observed under the Commission's measurement approach that year without the change in methodology.

In each case, it will apply the same principles as it did in 2018, in particular it will make a choice based on:

- Accepting the arbitrary nature of setting poverty thresholds and ensuring that in setting the threshold, the Commission does not convey a false sense of accuracy;
- Wanting to ensure that the threshold could be easily communicated; and
- Wanting to ensure that the decision did not lead to a large shift in the measured rate of poverty.

The Commission believes that this is the most appropriate way to approach methodological changes until its full measurement framework has been developed and implemented. This is particularly important as, with a consistent benchmark level of poverty in 2016/17, the Commission will be able to measure and report on any changes to poverty that are observed until a final measure is implemented which is the main objective of a new poverty measure.

Commission decision

The Commission reconfirmed its view that it did not wish changes to the methodology of poverty measurement to be used to make inferences about how the overall number of people in poverty in the UK had changed. The Commission also wants to be able to comment on any real changes in poverty that occur whilst the SMC measurement framework is being finalised.

To ensure this happens, where changes in methodology result in significant changes to the number of people measured as being in poverty, the Commission decided to reconsider its original decision on the poverty threshold. To do this, it would approach the decision as if those methodological improvements were available to it when the original decision was made (2018), so that the threshold is set to maintain the Commission's measure of 14.2 million people in poverty in 2016/17. This was set in order to match the HBAI AHC relative-low income poverty rate of 22% in 2016/17.

Where methodological changes cannot be applied retrospectively, the Commission will take a decision that meets this principle as closely as possible.

Improvements to analysis code - 2019

Over the course of the year since the Commission's first report, the Commission's technical team have made a number of small adaptations to the measurement approach. None of these reflect changes to the Commission's approach or measurement framework. Instead, they reflect improvements in the measurement of specific elements of the Commission's measure. They include:

- Accounting for small numbers of observations where the Commission's measure of Total Resources Available (TRA) or elements of TRA are recorded as negative figures in the survey data;
- Creating new assumptions on the rental value of an extra room, to feed into measures of overcrowding. The previous approach of using figures for 2016/17 and deflators for other years has been replaced by using new calculations for each year;

- Correcting a minor error in the calculation of sharing-unit level costs of overcrowding; and
- Correcting a coding error which meant that the wrong grossing factor was being used in one element of the Commission’s calculation of the median total resources available.

Without any further changes to the Commission’s measurement framework, these changes would lead to an increase in measured poverty of 500,000 in 2016/17, without altering the Commission’s overall view of the number of people who were in poverty in that year.

Accounting for these changes through the threshold

As outlined above, the Commission does not want changes to the measurement methodology to lead to inferences about how actual poverty in the UK has changed. As such, the section above highlighted that the Commission will incorporate changes to methodology as if they were available when the 2018 poverty threshold decision was made. As a result, the Commission decided to reset the poverty threshold at 54% of the three-year average of the median of total available resources. This is the decision that would have been taken in 2018, as it ensures that the 2016/17 estimates for the number of people in poverty matches those for HBAI AHC relative-low income poverty in 2016/17; 14.2 million (see table 1).

Table 1: Poverty rates and numbers under different threshold choices

Threshold of median total resources available	Poverty rate		Number of people in poverty (millions)	
	2016/17	2017/18	2016/17	2017/18
54%	22 %	22 %	14.2	14.3
55%	23 %	23 %	14.7	14.7

Source: Family Resources Survey and HBAI dataset (1998/99–2017/18), SMC Analysis.

Uprating of the proxy for the extra costs of disability

Why consider this issue?

The Commission’s 2018 report highlighted the importance of regarding the extra costs of disability as an inescapable family-specific cost. However, it also demonstrated that existing evidence does not allow for an identification of how the extra costs of disability vary across individuals with different types or severities of disability. As a result, the Commission chose to use the value of extra cost disability benefits (DLA, PIP and AA) as the best available proxy for the extra costs of disability. In practice, this means that the financial value of these benefits is judged as not being able to be used to meet non-disability needs, and this amount is deducted from resources available as a best estimate of the inescapable cost. The Commission committed to undertaking more work in this area, which it plans to begin later in 2019.

The Commission is aware that an implication of simply using reported levels of extra-cost disability benefits that families receive as a proxy is that any changes to the generosity of these benefits (and their relativity with the actual extra costs of disability) will not be captured in the Commission’s measure of poverty. For example, if the Government chose to significantly increase the generosity of these benefits, this would not be translated into a reduction in poverty in the Commission’s results.

The Commission's decision

To tackle this, the Commission decided that the proxy set in 2018, should be uprated (its value changed) each year. This would allow the Commission to change the value of the proxy to reflect how it believed the extra costs of disability had changed over the previous year. This would remove the necessity of a direct link between the extra cost benefits and the proxy for the extra costs of disability. For example, this would mean that, if extra costs were judged to have risen and this was reflected in the Commission's proxy, the impact on poverty amongst disabled people would depend on the Government's choices surrounding the extra cost benefits; if they were also to rise (by the same amount) there would be no impact. However, if extra cost benefits had not risen by as much, poverty amongst disabled people would be likely to rise.

Commission decision

The proxy for the extra costs of disability that was set in 2018, based on values of DLA / PIP / AA in 2016/17, should be uprated each year to reflect changes in the underlying extra costs of disability.

Measurement in practice

The Commission considered a range of options for uprating the value of the proxy for the extra costs of disability in 2019. These included:

- Uprating by a measure of an economy-wide measure of inflation (e.g. the Consumer Prices Index);
- Uprating by a measure of inflation specific to the extra costs of disability (e.g. based on the types of goods and services typically included in these extra costs); and
- Uprating by the observed level of the increase in extra cost benefits.

Its ultimate decision was guided by two factors:

- Testing which demonstrated that, unless the proxy is uprated by a significantly larger value than the uprating of the extra cost benefits (which rise by the September value of CPI), impacts on measured poverty amongst disabled people are minimal. For example, if the proxy is uprated by 2% more than the extra costs of disability, this rarely showed up in the reported estimates of poverty as they are rounded to the nearest 100,000. Of course, over longer periods of time, this effect could become much more important, which underlines the Commission's strong belief that further work is needed in this area; and
- The Commission was again hampered by a lack of robust evidence on the extra costs of disability and the ability to capture these in the FRS / HBAI. Ultimately, the Commission felt that, without further detailed research, it was unable to adopt an uprating strategy which it felt would guarantee that changes in the proxy value for extra costs more accurately reflected changes in the extra costs of disability, than simply uprating by the observed changes in the extra costs benefits.

Based on these findings, the Commission decided to uprate the proxy in line with observed increases in the extra cost benefits. However, the Commission again notes the need for urgent work in this area and will be taking forward the initial stages of that work later this year. The Commission will return to this decision once that work has been undertaken.